Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Message Text

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PAGE 01 RIO DE 00768 192116Z

73
ACTION ARA-10

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P R 192028Z FEB 76
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TO USDOC WASHDC PRIORITY
INFO SECSTATE WASHDC 3381
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COMMERCE: PASS BIC/OED/MEPD

E.O. 11652: N/A
TAGS: BEXP, BR
SUBJECT STEEL EXPANSION PROGRAM CSN HOT STRIP MILL

REF: RIO 0690

1. SUMMARY: IN APPARENT LOW BID, INNOCENTI-LED CONSORTIUM BID $68 MILLION C.I.F. ON CSN HOT STRIP MILL IN PRICE ENVELOPES OPENED FEBRUARY 18. HOWEVER, DETAILED ANALYSIS IS REQUIRED BEFORE CSN CAN MAKE FINAL DECISION, WHICH IS EXPECTED WITHIN A MONTH. LOWEST BID INVOLVING U.S. COMPANY (BLAW-KNOX) WAS $87 MILLION BUT THE BID WAS DISPUTED. NEXT LOWEST BID WITH U.S. PARTICIPATION (MESTA) WAS $100 MILLION. U.S. INDUSTRY SOURCES REPORT THAT USIMINAS EXPANSION PROGRAM HAS RUN INTO DELAYS AND THAT COSIPA'S HAS BEEN POSTPONED INDEFINITELY. END SUMMARY.

2. AT VOLTA REDONDA FEBRUARY 18, CSN OFFICIALS OPENED PRICE ENVELOPES SUBMITTED BY FOLLOWING CONSORTIA:
(A) INNOCENTI SANTEUSTACCHIO INNSE (ITALY); INNOCENTI INDUSTRIA MECANICA S.A. INNOBRA (BRAZILIAN COMPANY OWNED BY INNSE); AND BADONI ATB INDUSTRIA METALMECANICA S.A. (BRAZILIAN COMPANY WITH ITALIAN OWNDERSHIP);
(B) ISHIKAWAJIMA-HARIMA (JAPAN); MITSUBISHI (JAPAN);
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PAGE 02 RIO DE 00768 192116Z

ISHIKAWAJIMA DO BRASIL ISHIBRAS (BRAZIL) ; CBC INDUSTRIAS

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

PESADAS S.A. (BRAZILIAN COMPANY OWNED BY MITSUBISHI);
(C) BLAW-KNOX (U.S.); DEMAG (GERMANY) AND HITACHI (JAPAN),
WITH UNIDENTIFIED BRAZILIAN PARTICIPATION; (D) MESTA (U.S.),
VILLARES (BRAZIL AND BARDELLA (BRAZIL); (E) SCHOLEMANN
SIEMAG A.G. (GERMANY); USIMEX MECANICA (BRAZIL); DAY
LOWEWY (U.K.); AND MAQUINAS PIRATININGA (BRAZIL);
(F) WEAN UNITED (U.S.); SECIM (FRANCE); AND MECANICA
PESADA (BRAZILIAN COMPANY ASSOCIATED WITH SECIM).

3. BID OPENINGS TOOK THREE HOURS AND WAS ATTENDED BY
SOME CONFUSION. SUMMARY TOTALS OF EACH PROPOSAL WERE
NOT POSTED. INSTEAD, COMPANY REPS (ABOUT 75) WERE
ALLOWED ABOUT THREE HOURS TO REVIEW ALL SUBMITTED
DOCUMENTS (IF THEY COULD GET THEIR HANDS ON THEM - MORE
ENTERPRISING REPS USED CASSETTE RECORDERS FOR DICATION).
AS A CONSEQUENCE, NO ONE INCLUDING CSN) REALLY HAD
SUFFICIENT TIME TO SUMMARIZE, DIGEST AND COMPARE THE
VARIOUS BIDS. IT WILL BE SOME TIME BEFORE THE PROPOSAL
CAN BE FULLY ANALYZED BY CSN, WHICH UNDER BIDDING
INSTRUCTIONS IS OBLIGED TO MAKE A FINAL DECISION BY
MARCH 18. CSN WILL TAKE INTO ACCOUNT FINANCING PROPOSALS,
ESCALATION CLAUSES, AND GOB INCENTIVES IN ADDITION TO
BASIC PRICE PROPOSALS. COMPLICATING THE PROCEDURES IS
THE BACT THAT THE GOB (SPECIFICALLY THE MINISTRY OF
FINANCE) HAS NOT YET APPROVED THE SET OF INCENTIVES
WHICH WILL APPLY TO THE LOCAL CONTENT.

4. IN THE MELEE, FOLLOWING BID PRICES WERE GLEANED BY
EMBASSY MINERALS OFFICER FROM THE NUMEROUS DOCUMENTS
AVAILABLE FOR QUICK REVIEW. WE BELIEVE THE FIGURES
BELOW ARE RELATIVELY ACCURATE AND HAVE CONFIRMED MOST
OF THEM WITH SEVERAL OF THE US REPS. FOR FURTHER
DETAILS AND ANALYSIS AFTER THE DUST SETTLES, WE SUGGEST
THAT COMMERCE CONFER WITH BILL BERG OR DAN SMITH OF
MESTA, BILL WOLFE OF BLAW-KNOX, JOHN KNOX OF WEAN-UNITED,
AND HUGH STEWARD OF BLISS, ALL OF WHOM ARE RETURNING
TO THE U.S. SHORTLY.

5. FOR PURPOSES OF COMPARISON, WE HAVE CONVERTED ALL
PRICES TO U.S. DOLLARS. CIF PRICES FOLLOW FOR BASIC
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PAGE 03 RIO DE 00768 192116Z

FULL PACKAGE, CONSISTING OF FURNANCE HANDLING EQUIPMENT,
ROUGHING MILL, FINSH MILL, DOWNCOILERS AND CONVEYORS.
BLISS BID ON THE FIRST, FOURTH AND FIFTH OF THESE ITEMS
BUT HAS NOT YET BEEN ABLE TO COMPARE ITS PRICES WITH
OTHER COMPETITORS. ALL OF THE GROUPS BELOW BID ON
THESE INDIVIDUAL ITEMS,AS WELL AS ON THE COMPLETE
PACKAGE. BIDDERS ARE IDENTIFIED BY MAJOR FOREIGN
SUPPLIER IN CONSORTIUM: (A) ITALIANS $68 MILLION

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

(LOCAL CONTENT 42 PERCENT; WITH 15 PERCENT PENALTY
FOR PRICE COMPARISON PURPOSES WHICH IS APPLIED TO
C.I.F. VALUE OF IMPORTED PORTION IF NATIONAL CONTENT
IS LESS THAN 50 PERCENT, TOTAL PRICE WOULD COME TO
$72 MILLION; (B) JAPANESE -$87 MILLION (LOCAL
CONTENT 53 PERCENT); (C) BLAW-KNOX CONSORTIUM:
$87 MILLION (LOCAL CONTENT 43 PERCENT, RESULTING
IN TOTAL PRICE FOR COMPARISON PURPOSES OF $94 MILLION;
FYI: THIS CONSOTIUM WAS PUBLICLY CHALLENGED BY
SEVERAL COMPETITORS ON GROUNDS THAT ITS PACKAGE
DID NOT REALLY HAVE THE LOCAL CONTENT WHICH IT CLAIMED
END FYI: (D) MESTA CONSORTIUM: $101 MILLION (LOCAL CONTENT
66 PERCENT); (E) GERMAN-U.K. CONSORTIUM: $89 MILLION
(LOCAL CONTENT 39 PERCENT), RESULTING IN TOTAL PRICE
FOR COMPARISON PURPOSES OF $97 MILLION); (F) WEAN
UNITED CONSORITUM: $123 MILLION (THIS WAS THE ONLY
FIXED PRICE BID ALL OTHERS INCLUDED ESCALATION
CLAUSES) (LOCAL CONTENT 17 PERCENT, RESULTING IN
TOTAL PRICE FOR COMPARISON PURPOSES OF $138 MILLION).

6. COMMENT: ALTHOUGH NONE OF THE COMPANIES CAN BE
CERTAIN AT THIS POINT WHAT THE FINAL CSN DECISION WILL
BE (EVEN THE ITALIANS OPENLY EXPRESSED SURPRISE
THAT THEIR BID WAS SO MUCH LOWER THAN THE OTHERS),
THE ITALIANS SEEM TO HAVE A STRONG LEAD ON THE BASIS
OF THEIR BASIC PRICE. MESTA'S MAIN HHOPE IS THAT
THEIR HIGH INDEX OF LOCAL CONTENT, THEIR ESCALATION
CLAUSE AND THEIR INFLUENTIAL BRAZILIAN PARTNERS WILL
BE ABLE TO SAVE THE DAY.

7. NEXT IMPORTANT CSN PRICE ENVELOPE OPENING WILL BE
ON FEBRUARY 24 FOR NUMBER 3 TANDEM COLD MILL AND
NUMBER FOUR AND FIVE TEMPER MILLS. ACCORDING TO
LIMITED OFFICIAL USE

SEVERAL REPS PRESENT AT VOLTA REDONDA, THE USIMINAS
EXPANSION PROGRAM HAS RUN INTO DELAYS AND COSIPA'S
PROGRAM HAS BEEN POSTPONED INDEFINITELY BECUASE OF
FINANCING PROBLEMS AND/OR THE LACK OF GOB CLAIFICATION
ON THE INCENTIVES TO BE GIVEN FOR LOCAL CONTENT. AT
THE CSN OPENING THE STATUS OF INCENTIVES WAS INDEED
A VERY CONFUSING ISSUE. CSN FRANKLY STATED THAT THE
MATTER WAS ENTIRELY UP TO THE MINISTRY OF FINANCE,
WHICH IS TO REVIEW THE TECHNICAL AND THE PRICE
PROPOSALS FOR EAC BID ONLY AFTER BOTH ENVELOPES ARE
OPENED.
DEXTER

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

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Margaret P. Grafeld
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US Department of State
EO Systematic Review
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